



Individual Income Tax: Income Part 1

Course #3111D

Taxes

2 Credit Hours

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INDIVIDUAL INCOME TAX: INCOME PART 1

This course covers basic information about the tax system and discusses which income is and is not taxed. Types of income discussed include: wages, salaries, tips, interest, dividends, social security, and others.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Introduction
Filing Information
Filing Status
Dependents
Estimated Tax
Wages, Salaries, and Other Earnings
Tip Income
Interest Income
Dividends and Other Distributions
Social Security and Equivalent Railroad Retirement Benefits

Study the course materials from pages 1 to 69

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize the length of the automatic extension provided by filing Form 4868.
- Recognize the various filing statuses and who is eligible to use them.
- Recall the various requirements for a qualifying relative.
- Identify the purpose of estimated taxes.
- Recall what types of compensation are included as income for tax purposes.
- Recognize what tips should be included in income for tax purposes.
- Recall the proper tax treatment for various types of interest.
- Identify the proper treatment of various types of dividends.
- Recognize key taxation thresholds related to social security income.

NOTICE

All references to IRS forms and line numbers throughout this course are based on prior year or draft forms available from the IRS in late 2022. There is a possibility some of these references will change.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

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INTRODUCTION

Chapter Objective

After completing this chapter, you should be able to:

- Recall important tax changes to be used for 2022 tax returns.

Note



Many of the changes/provisions affecting 2022 are from the Tax Cuts and Jobs Act of 2017 and the usual inflation adjustments. Subsequently, the American Rescue Plan Act was signed into law March 11, 2021 in response to the continued economic fallout of the COVID-19 pandemic, and includes key provisions affecting a number of items for 2021 and 2022 as summarized later. These changes are also noted throughout the course.

This course is a general overview of federal income tax laws for individuals filing 2022 tax returns. The course begins with the rules for filing a tax return. The course explains who must file a return, which tax forms to use, when the return is due, and other general information. It will help identify which filing status your clients qualify for and whether the income they are receiving is taxable. The course goes on to explain the standard deduction, the kinds of expenses they may be able to deduct, and the various kinds of credits they may be able to take to reduce their tax.

Throughout the course are examples showing how the tax law applies in typical situations. Sample forms and schedules show how to report certain items on tax returns. Also, throughout the course are flowcharts and tables that present tax information in an easy-to-understand manner.

We start with a section on important tax changes.

I. IMPORTANT TAX CHANGES/PROVISIONS FOR 2022

- **Individual tax rates are set at 0%, 10%, 12%, 22%, 24%, 32%, 35%, and 37%.**
- **Increase of the standard deduction** to \$12,950 and \$25,900 for individuals and married couples filing jointly, respectively (2022).

Elderly and/or blind taxpayers receive an additional standard deduction amount added to the basic standard deduction. The additional standard deduction for a blind taxpayer—a taxpayer whose vision is less than 20/200—and for a taxpayer who is age 65 or older at the end of the year is:

- \$1,400 for married individuals; and
- \$1,750 for singles and heads of household.

The additional standard deduction for taxpayers who are both age 65 or older at year-end and blind is double the additional amount for a taxpayer who is blind (but not age 65 or older) or age 65 (but not blind). For example, a 65 year-old single blind taxpayer would add \$3,500 to his or her usual standard deduction: \$1,750 for being age 65 plus \$1,750 for being blind ($\$1,750 \times 2 = \$3,500$). Thus, his or her standard deduction would be \$16,450 ($\$12,950 + \$3,500 = \$16,450$).

- **Personal exemptions eliminated for 2018-2025.**
- **Write off of state and local taxes restricted to \$10,000.**
- **Many itemized deductions eliminated.** The tax law eliminates itemized deductions for:
 - Unreimbursed employee expenses, such as mileage (previously deductible to the extent they exceeded 2% of adjusted gross income)
 - Tax preparation expenses
 - Alimony payments (see details)
 - Investment expenses
 - Miscellaneous itemized deductions
 - Moving expenses to move to a new job, and
 - Personal casualty losses (except for losses associated with special disaster relief legislation).
- **Charitable contributions.** People who itemize will be allowed to deduct cash contributions up to 60% of their adjusted gross income, instead of 50% under prior law.
- **The mortgage interest deduction.**
 - For all homeowners with existing mortgages at 12/17/2017 that were taken out to buy a home, there is no change to the current mortgage interest deduction.
 - For homeowners with new mortgages after 12/17/2017 on a first or second home, the home mortgage interest deduction is available on up to \$750,000 of mortgage debt.
- **Medical bills.** Medical expenses can be deducted in 2022 for medical expenses exceeding 7.5 percent of adjusted gross income.
- **Alimony - Post 2018 Divorce Agreements.** Under the tax code before TCJA passage, alimony (but **not** child support) was deductible by the payer and included in the income of the recipient for tax purposes. Under the TCJA, that tax treatment continues only for alimony payments made pursuant to a divorce or separation agreement entered into on

or before December 31, 2018. Thus, alimony payments made in 2018 are deductible to the payer and includible in the recipient's income.

However, under TCJA, §11051, alimony payments are no longer tax deductible to the payer or includible in the income of the recipient if made under:

- a) A divorce or separation agreement entered into after December 31, 2018; or
- b) A divorce or separation agreement entered into on or before December 31, 2018 but modified after that date if the modified agreement specifically provides that the provisions of the Tax Cuts and Jobs Act of 2017 will apply.

Alimony payments made under a divorce or separation agreement entered into on or before December 31, 2018 but paid after that date—with the exception of such payments made under a modified agreement described in b) above—will continue to be tax deductible to the payer and includible in the income of the recipient.

- **Adjusted estate taxes.** Estates worth up to \$12.06 million per person are exempt from the federal estate tax in 2022. This means that married couples with estates worth up to \$24.12 million will not be affected by the federal estate tax. These numbers are increased for inflation each year.
- **Corporate tax rate lowered to 21% (beginning January 1, 2018).**
- **Section 199A. 20% tax deduction that applies to the first \$340,100 (2022) of joint income** earned by all businesses organized as S corporations, partnerships, LLCs, and sole proprietorships. See detailed rules for income above this amount in course 3118.
- **Rental Real Estate Safe Harbor for § 199A.** As discussed in Notice 2019-07, a safe harbor is available to individuals and owners of pass through entities. Under the safe harbor, a rental real estate enterprise will be treated as a trade or business for purposes of the QBI deduction. Taxpayers may still treat rental real estate that does not meet the requirements of the safe harbor as a trade or business for purposes of the QBI deduction if it is a section 162 trade or business.

Solely for the purposes of section 199A, a rental real estate enterprise will be treated as a trade or business if the following requirements are satisfied during the taxable year with respect to the rental real estate enterprise:

(A) Separate books and records are maintained to reflect income and expenses for each rental real estate enterprise;

(B) For taxable years beginning prior to January 1, 2023, 250 or more hours of rental services are performed per year with respect to the rental enterprise. For taxable years beginning after December 31, 2022, in any three of the five consecutive taxable years that end with the taxable year (or in each year for an enterprise held for less than five years), 250 or more hours of rental services are performed per year with respect to the rental real estate enterprise; and